

BiH Economic Update

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Preface

This Quarterly Economic Update summarizes key economic indicators for Bosnia and Herzegovina, and analyzes their trends. The sources of statistical information are the Federation and the Republika Srpska (RS) Statistical Institutes, the EC-funded Customs and Fiscal Assistance Office (CAFAO), the Central Bank of Bosnia Herzegovina (CBBH), Federal Institute for Development Programming, RS Customs Department, IMF (Direction of Trade Statistics), World Bank and incidental data sources.

Data should be used with caution and interpreted carefully. Important statistical series are missing due to the lack of resources necessary for data collection and surveys. The existing series suffer from serious coverage, methodological and reporting gaps. Furthermore, statistical reports are not user-friendly : redundant statistics are published, reporting formats are often unusual and frequently changing.

The gross domestic product (GDP) figures are only estimates, as they cannot be calculated with any degree of accuracy since production, income, or expenditure are not fully covered. In general, the real-sector data underreport the size of the economy, due to the lack of data on the “shadow economy”. At the same time, capital and labor incomes are underreported even in registered businesses. Household consumption is difficult to estimate, as no household budget surveys have been carried out. Foreign trade is also underreported.

I. Recent Trends

After four years of double-digit (real) growth in gross domestic product (GDP), driven mainly by donor-financed physical reconstruction and economic reactivation operations, real growth dropped to around 10% in 1999 (BiH). Growth was still impressive in the Federation (13.6%) but fell below 5% -- in real terms -- in the RS. Growth in 1999 was, in fact, entirely fueled by transfers from abroad and capital inflow (from official sources). The question now is whether BiH will experience solid performance in 2000 or whether the growth rate is converging towards the long-term *natural* rate than one can expect for a lower middle-income country characterized by repression of Economic Freedom. The outcome for 2000 depends on the willingness of the international community to finance the Current Account deficit as well as on the pace of market liberalization, removal of barriers to business development and kick-starting real restructuring of large loss-making enterprises.

With data for nine months into 2000, it is possible to make an initial assessment about the growth performance. Many indicators suggest solid growth in the Federation (at an annual rate slightly below 10%). In the RS, indicators suggest more moderate growth (at an annual rate well below 10%). Industrial production is up 5.3% (first nine months, 2000) from the same period in 1999.

Federation. Industrial production advanced 14.7% in the last 12 months up to September (2000) compared to the previous 12 months. However, in recent months, growth started to level off. Construction activity, transport (of goods), production of the electrical power industry and forestry production all show modest or even negative growth over the last 12 although. Lately, construction activity has picked up strongly.¹ Income growth is not (yet) inducing employment growth as registered employment stands only 1.16% higher in the last 12 months (up to August 2000) compared to the previous 12 months. Registered unemployment is edging upwards, and, net wages progressed 8.8% in the last 12 months (up to August 2000).

Tax revenue is 18.8% higher in the last 12 months (up to September 2000) although growth is leveling off in recent months. Inflation remains under control.

The industrial sub-sectors registering the weakest performance are (January-September 2000 compared with same period of 1999): tobacco (-15%), wearing apparel (-15%), products of wood (-2.2%), furniture (-1.5%), chemicals (-19%), non-metallic mineral products (-10.3%), electrical machinery (-15.2%).

The industrial sub-sectors registering the strongest performance are (January-September 2000 compared with same period of 1999): textiles (+17%), manufacture of pulp/paper/paper products (+30.5%), rubber and plastics products (+18.9%), basic metals (+59.4%), fabricated metal products (+24.1%), machinery other than electrical (+30.2%), manufacture of motor vehicles (+35.7%).

¹ Effective hours worked, production of cement, reinforced steel bars and bricks show similar strong growth rates.

The Federal Institute of Statistics reports **Inter-Entity trade**. In the first three quarters of 2000 recorded inter-Entity evolved as follows :

Q1	KM27.6 million
Q2	KM37.6 million
Q3	KM32.2 million

This volume is down from KM44.4 million in the last quarter of 1999. Official data are believed to underreport the real level of trade between the Entities. Nevertheless, inter-Entity trade is dwarfed by foreign trade. Foreign trade is almost 40 times larger.

Republika Srpska. The picture is gloomier in the RS. Industrial production in the first nine months of 2000 is only 5.3% higher compared to the same period of 1999. Electricity production, transport (of goods) and construction activity are equally disappointing. Forestry production shows a significant increase in the last 12 months (up to September 2000) compared to the previous 12 months.

The under-performing industrial sub-sectors in the RS are (January-September 2000 compared with same period of 1999): electricity (-7.2%), extraction of nonmetallic minerals, paper and paper products (-37.8%), textiles (-14.5%).

The industrial sub-sectors registering the strongest performance are (January-September 2000 compared with same period of 1999): nonferrous metals production (+458.4%), fabricated metal products (+18.8%), electrical machinery (+12.6%), basic chemical products (+245%), building materials (+28.7%), finished wood products (+16.9%), clothing (+27%), food processing (+19.3%).

Public Revenue for the first nine months of 2000 is 20.8% higher compared to the same period in 1999. This performance is due to customs revenue (+43.5%) and *other* revenues (+39.4%). Higher customs revenue is related to higher imports (15.2%) in the corresponding period and redirection of import flows (less imports from Yugoslavia and more from other origins).

Net wages progressed strongly during the last 12 months (up to August 2000), +32% -- well above price inflation -- although growth is leveling off since June 2000. This is very remarkable because real growth in RS is disappointing and registered unemployment increased. In January 1999, (average) monthly net wages in RS were 56.2% of the level in the Federation. In August 2000, the gap had been reduced; the RS level is now 68.4% of the Federation level.

Quite some uncertainty exists about the underlying inflationary trend in the RS. The RS Statistical Agency reports a price increase, for 1999, of 15%. This is explained by the fact that manufacturers and traders in the RS were forced to switch from cheap suppliers in Yugoslavia to more expensive suppliers elsewhere. Therefore, prices in the RS have been catching up with prices in the Federation (which did not trade with Yugoslavia). In the last ten months (up to October 2000) prices stood 15.1% higher than in the same period of 1999. Price inflation even jumped in the last two months (September and October 2000).

TABLE 1 : Recent Economic Trends

	Measurement	level	last 3 months (1)	last 12 months (2)	year to year (3)
Federation :					
Industrial Production	index		-1.6% (Jul-Sep)	14.7% (Oct99-Sep00)	7.3% (Sep)
Construction activity	hours worked		15.4% (Jun-Aug)	1% (Sep99-Aug00)	11.6% (Aug)
Electricity production	index		-9.4% (Jul-Sep)	11.4% (Oct99-Sep00)	13.9% (Sep)
Goods transported by road	ton-km		6.5% (Jun-Aug)	-3.8% (Sep99-Aug00)	-11.1% (Aug)
Forestry production	m3		33.2% (Jun-Aug)	14.1% (Sep99-Aug00)	10.6% (Aug)
Food sales in markets	index		-5.7% (Jun-Aug)	-16% (Sep99-Aug00)	-2% (Aug)
Retail price index	index			0.5% (Oct99-Sep00)	2% (Sep)
Net wages (monthly average)	KM	418.4(Aug)	1.8% (Jun-Aug)	8.8% (Sep99-Aug00)	11.5% (Aug)
Employment	number	412,760 (Aug)		1.16% (Sep99-Aug00)	1.2% (Aug)
Unemployment	number	268,172 (Aug)		2.6% (Sep99-Aug00)	1.4% (Aug)
Imports	KM		-14.8% (Jun-Aug)	1.2% (Sep99-Aug00)	-16.3% (Aug)
Import excise on oil products	KM		14.2% (Jul-Sep)	15.4% (Sep99-Aug00)	38.1% (Sep)
Public revenue	KM		2.1% (Jul-Sep)	8.8% (Oct99-Sep00)	1.9% (Sep)
RS :					
Industrial Production	index		-3.1% (Jul-Sep)	1.4% (Oct99-Sep00)	-15.4% (Sep)
Construction activity	hours worked		17.1% (Jun-Aug)	4.1% (Sep99-Aug00)	7.8% (Aug)
Electricity production	index		-34.4% (Jul-Sep)	-7.1% (Oct99-Sep00)	-34.4% (Sep)
Goods transported by road	ton-km		7.3% (Jun-Aug)	-10.4% (Sep99-Aug00)	3.1% (Aug)
Forestry production	m3		12.7% (Jul-Sep)	26.9% (Oct99-Sep00)	-5.3% (Sep)
Food processing	index		34.1% (Jul-Sep)	22.3% (Oct99-Sep00)	57.2% (Sep)
Retail price index	index		5.4% (Aug-Oct)	15.1% (4)	16.1% (Oct)
Net wages (monthly average)	KM	286 (Aug)	4.5% (Jun-Aug)	32% (Sep99-Aug00)	33% (Aug)
Employment	number	220,782 (Jun)			
Unemployment	number	153,384 (Jun)		5.2% (Jul99-Jun00)	4.9% (Jun)
Imports	million KM		1% (Jul-Sep)	15.2% (5)	-12.4% (Sep)
Import excise on oil products	KM		14% (Jul-Sep)	-42.2% (Oct99-Sep00)	-23% (Sep)
Public revenue	million KM		12.3% (Jul-Sep)	26.6% (Oct99-Sep00)	-10.1% (Sep)
BiH :					
Broad Money (M2)	KM		4.1% (Apr-Jun)		39.1% (Jun)
Narrow Money (M1)	KM		8.1% (Apr-Jun)		218.5% (Jun)

NOTES :

- (1) last 3 months compared to previous 3 months
- (2) last 12 months compared to previous 12 months
- (3) last reporting period compared to same period last year
- (4) Jan-Oct of 2000 compared to same period of 1999
- (5) Jan-Sep of 2000 compared to same period of 1999

II. National Income and Economic Activity

A. National Income

GDP estimates for 1999 became available mid-2000. According to preliminary data, nominal GDP advanced by 13.6% in the **Federation**. In the **RS**, nominal GDP increased in 1999 by an impressive 18.7%. However, with the passage from Dinar to KM and the re-direction of import flows (imports from FRY were replaced by more expensive supplies from other origins), the price level between 1999 and 1998 is reckoned to have jumped by about 15%. This resulted in **real** GDP growth of 3.2% in the RS. It is also worthwhile to mention that Value Added in the industry and agriculture/forestry sectors increased by just 6.6%, in nominal terms, while the share of these sectors in GDP dropped from 54% to 48.5%.

On the expenditure side, statistics are virtually absent. According to official, World Bank and IMF estimates², investment (1999) amounted to 33% of GDP (of which 14% was Public Investment) and consumption amounted to 91% of GDP. Public Sector Expenditures amounted to 48.8% of GDP. As current revenues reached 32% of GDP, external financing covered the deficit (16.8%).

According to **Federation** data for 1999, gross fixed capital formation (GFCF) in agriculture/forestry and fishing amounted to only 0.46% of Federation GDP. GFCF in manufacturing and mining amounted to 1.1% of GDP. Figures for the electricity sub-sector are 2.28%, trade 1.8% and transport/communication 1.5%.

² *Country Assistance Strategy of the World Bank Group for Bosnia and Herzegovina*, World Bank, Report No. 20592, June 14, 2000.

Table 2 : GDP

	Unit	1995	1996	1997	1998	1999
BiH						
Nominal GDP	million KM	2,873	4,189	5,808	6,970	8,014 (est.)
Nominal GDP per capita	KM	785	1,149	1,591	1,884	1,872
GDP per capita growth	%		46.4 %	38.5 %	18.4 %	
Current Account deficit	% of GDP	9.6-10.2 %	26.9-27.2 %	30.6-38.8 %	25.5-29.4 %	
Federation						
Nominal GDP	million KM	1,962	3,049	4,189	5,133	5,833
Nominal GDP per capita	KM	868	1,353	1,862	2,281	2,061
RS						
Nominal GDP	million KM	911	1,140	1,619	1,837	2,181
Nominal GDP per capita	KM	651	814	1,148	1,285	1,506

Notes :

- Federation population estimates : 2.25 million (1998), 2.83 million (1999)
- RS population estimates : 1.43 million (1997), 1.41 million (1998), 1.45 million (1999)
- **Sources** : Statistical Institutes and World Bank

What are the growth perspectives for BiH ? According to their base-case scenario, the World Bank and IMF see another three years of double-digit GDP growth for BiH. Over the period 2000-2005, annual real GDP growth would average 9%.³ In the low-case scenario – weak fiscal and private sector reforms – annual growth rates would average 5%.

The *Private Sector Development Task Force* sees a gloomier picture. Economic Freedom in BiH is severely repressed. This repression affects both domestic savings *and* the efficiency of investments. Based on cross-country empirical evidence of the relationship between Economic Freedom and domestic savings and investment efficiency, the PSD-TF predicts single-digit GDP growth rates, even if the trend towards “market liberalization” continues.

³ *Country Assistance Strategy (FY00-02)*, World Bank, June 14, 2000, and, *Bosnia and Herzegovina : Selected Issues and Statistical Appendix*, IMF Staff Country Report No.00/77, IMF, June 2000.

Table 3 : Growth Scenarios for BiH

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Current Account Deficit (*)								
IMF-WB estimates (% of GDP)	59	47	38	25	20	17	11	8
External Debt (million US\$) (**)	3,620	4,076	2,981	3,101	3,348	3,629	3,819	3,954
Debt as % of exports (***)	590	387	218	199	182	167	151	140
Debt service as % of exports	87	38	10	8	7	5	6	6
Net private FDI (million US\$)			100	60	125	175	200	200
Investment (% of GDP)								
IMF-WB estimates	41	42	38	33	32	32	28	26
Base scenario of PSD-TF					28	26	23	19
"liberalization" scenario					31	29	26	23
Real GDP growth (% p.a.)								
IMF-WB base-case projection	69	30	18	10	15	14	10	6
Base scenario of PSD-TF (****)					6.1	4.5	3.2	2.3
"liberalization" scenario					7.6	5.8	4.3	3.4

(*) total resource transfers defined as imports of goods and non-factor services minus exports of goods and non-factor services (excludes interest payments and official/private transfers).

(**) Country Assistance Strategy of the World Bank Group for Bosnia and Herzegovina, Report No.20592, World Bank, June 14, 2000.

Exports are defined as exports of goods and services, including workers' remittances.

(****) PSD-TF : Private Sector Development Task Force Secretariat.

B. Economic Activity

Company Losses in the Federation

Before turning to the details about economic activity in 2000, we will analyze data on company profits in the Federation.

In the Federation, 51% of all profits are generated in the private sector whereas this sector is responsible for only 19.7% of all losses (Jan-Jun 2000). Extrapolated to 1999, losses of loss-making enterprises were equivalent to 15% of GDP. According to Table-4, the largest losses were recorded in the manufacturing sector followed by the electricity/water/gas supply sector.

TABLE 4 : Losses of loss-making companies (Federation)

Million KM

	Jan-Jun 1999	Jan-Jun 2000
AGRICULTURE, HUNTING AND FORESTRY	13.12	7.98
FISHING	0.09	0.3
MINING	45.53	39.63
MANUFACTURING	154.7	157.2
ELECTRICITY, WATER, GAS SUPPLY	80.4	56.17
CONSTRUCTION	18.64	27.82
RETAIL AND WHOLESALE; REPAIR OF VEHICLES	61.47	74.74
CATERING, HOTEL SERVICES, ETC	6.33	6.19
TRANSPORT, STORING AND COMMUNICATIONS	53.82	36.98
FINANCIAL SERVICES	0.08	0.52
REAL ESTATE, RENTING AND BUSINESS SERVICES	8.93	5.95
TOTAL	434.18	407.53

Source : Federal Institute of Development Planning, September 2000

Over the same period of January to June, **twenty** of the largest loss-makers in the Federation accounted for over **40%** of all losses :

Elektroprivreda BiH	Energy	KM28.1 million
Kreka-Durdevik	Mining	KM24.7 million
Zeljeznice BiH Sarajevo	Railways	KM21.3 million
Zeljezara Zenica	Industry	KM17.9 million
Sarajevo Gas	Gas distribution	KM12.0 million
Vodovod I kanalizacija	Water	KM11.3 million
Monitor Grude	Construction	KM 7.9 million
Natron kombinat Maglaj	Industry	KM 7.0 million
BH-Steel Company Zenica	Industry	KM 6.0 million
Polihem Sodaso Holding	Industry	KM 5.7 million
Tuzla putevi	Construction	KM 3.7 million
Marketi UPI	Trade	KM 2.8 million
Energoinvest-Energopetrol	Trade	KM 2.7 million
JPK gradski saobracaj Sar.	Transport	KM 2.7 million
Coca Cola Beverages	Trade	KM 2.2 million
Vranica Sarajevo	Construction	KM 2.0 million
Stupcanica Olovo	Agriculture/Forestry	KM 1.9 million
Uniline Grude	Trade	KM 1.9 million
Sipad komerc Sarajevo	Trade	KM 1.8 million
OKTAN Siroki Brijeg	Trade	KM 1.8 million

The largest profit-makers are (1st half of 2000) :

PTT Sarajevo	Communication	KM73.5 million
Aluminij Mostar	Industry	KM 7.2 million
Fabrika duvana Sarajevo	Industry (tobacco)	KM 6.6 million
Klas Sarajevo	Industry	KM 3.2 million
Ledo Citluk	Industry	KM 3.0 million
HPT HB Mostar	Communication	KM 2.7 million
Bosnalijek Sarajevo	Industry	KM 1.7 million
Avaz Sarajevo	Industry	KM 1.6 million
Elektroprivreda HZ Mostar	Energy	KM 1.6 million

These nine companies account for almost 38% of all profits. Another source ⁴ reports PTT profits (Jan-Dec 1999) of KM113.9 million, followed by Lijanovici company (meat processing) KM5.3 million. Among the top-100 companies in the Federation profit per employee in private enterprises is more than 3 times larger than in State-Owned Enterprise (SOEs) while the ratio of sales to assets is 10 times larger in private enterprises compared to SOEs.

Losses can also be viewed from the angle of National Accounts. The indicator, in National Accounting, closest to concept of losses is Net Operating Surplus. ⁵ In 1999, Net Operating Surplus in the Federation was KM608.2 million. However, this amount also includes the implicit labor compensation of self-employed entrepreneurs (including commercial farmers). Eliminating this labor compensation component yields an *adjusted* Net Operating Surplus of only KM69.7 million. This is equivalent of only 5.4% of Gross Fixed Capital Formation or 1.2% of GDP. Furthermore, this *adjusted* Net Operating Surplus breaks down as follows :

Agriculture,forestry,fishing	KM 46.5 million
Mining,manufacturing,electricity,construction	KM -141.0 million
Tertiary sector	KM 164.2 million

Trends in economic activity

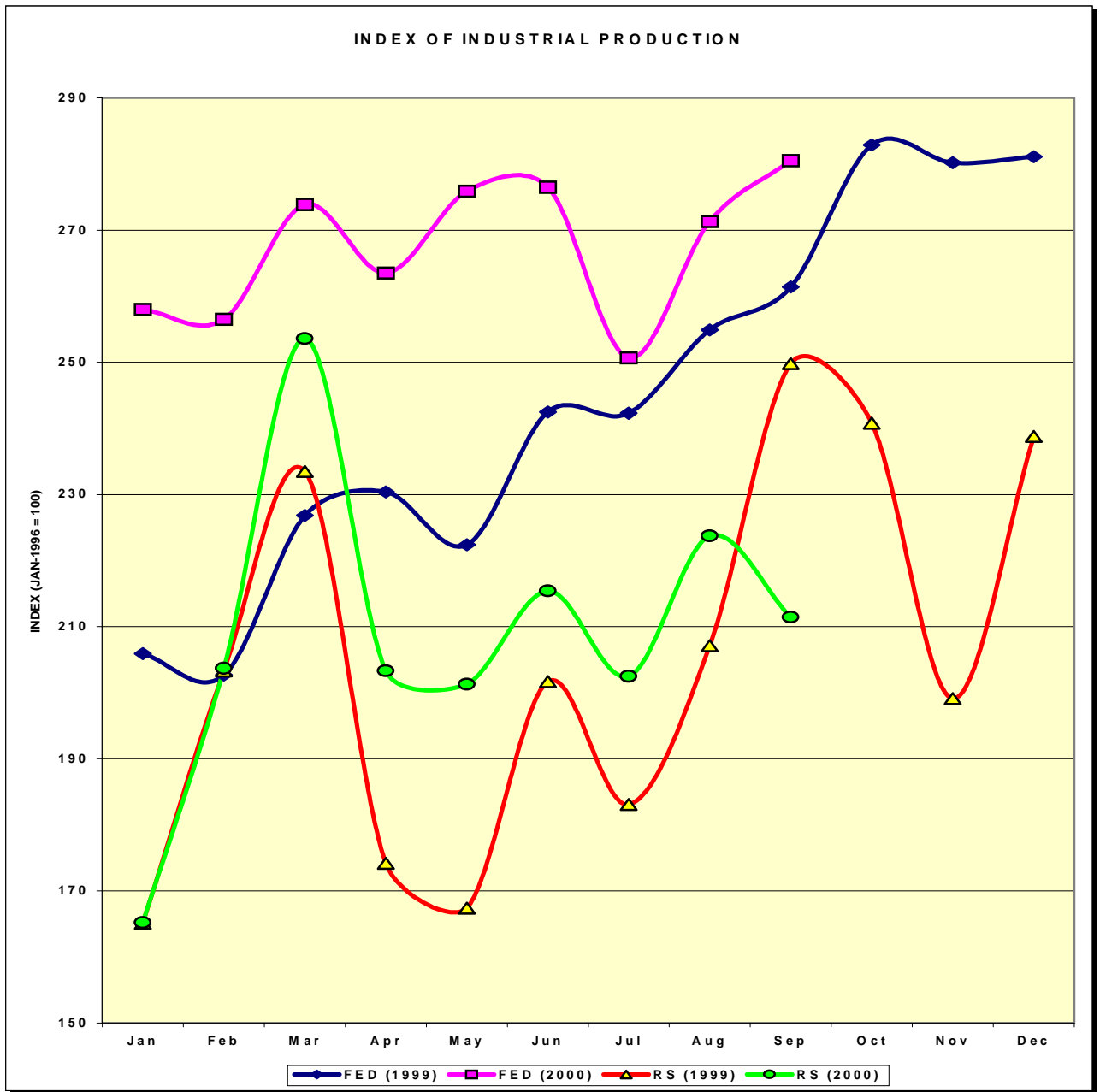
Six graphs, shown on the following pages, present:

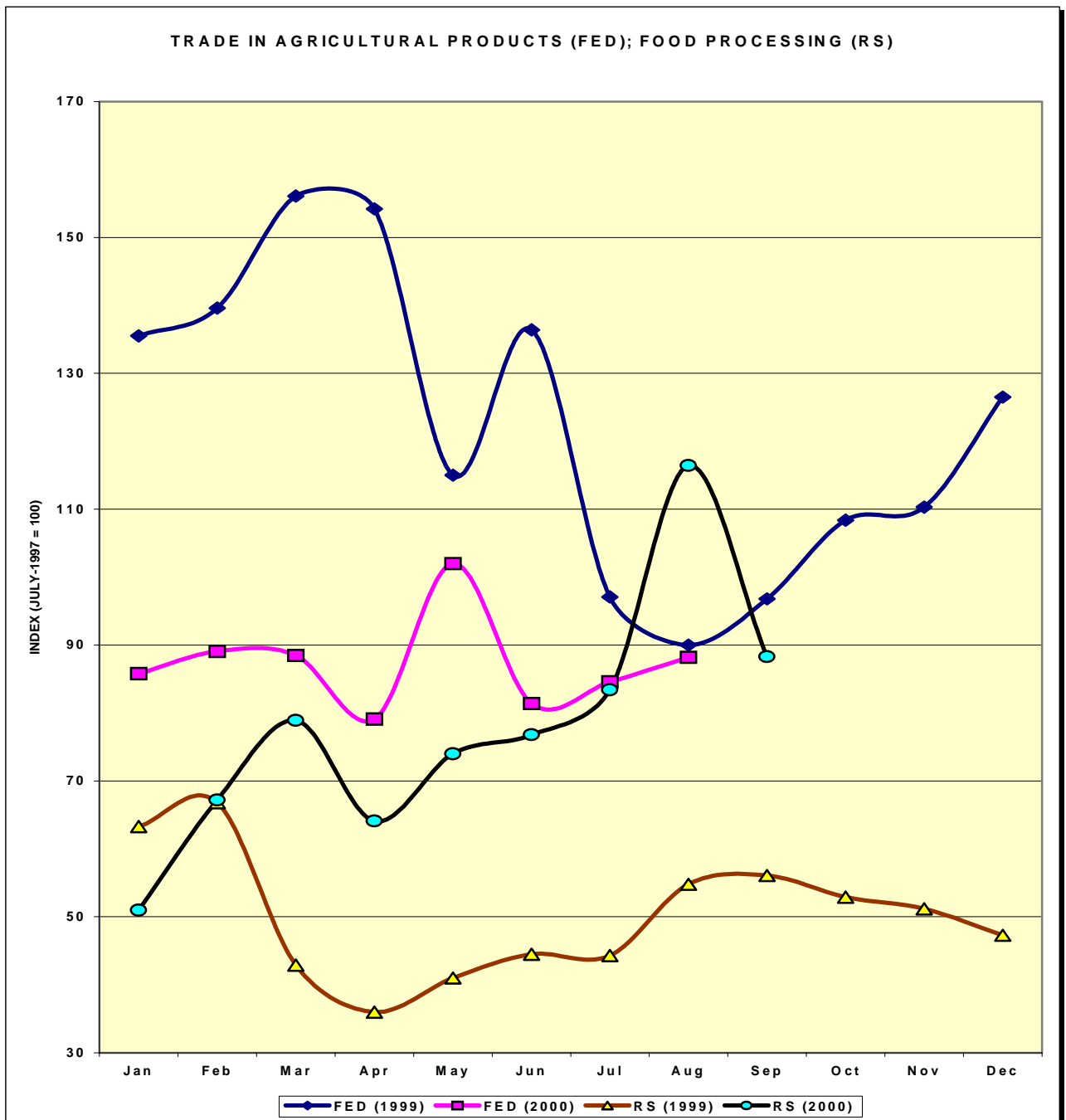
- Index of Industrial Production
- Food Processing (RS) and Trade in food products (Federation)
- Index of Electric Power Production
- Goods transport by road (in ton-km)
- Construction : hours worked
- Food Processing (RS) and Trade (in food products/Federation)

The graphs demonstrate the existence of a strong seasonal pattern in the data. This compounds the task of discovering the medium-term trend.

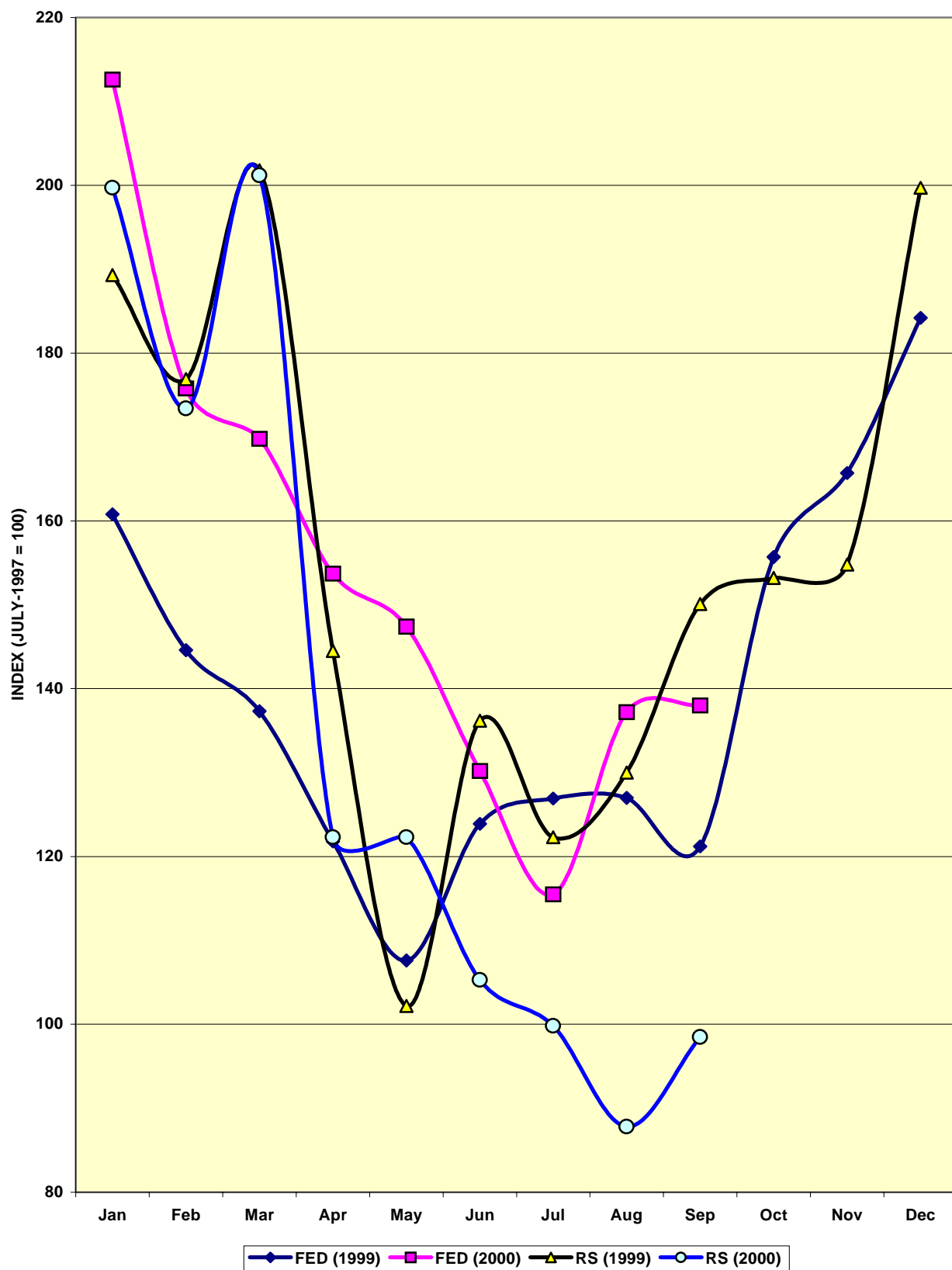
⁴ *Poslovne Novine*, July-August 2000

⁵ Net Operating Surplus = Value Added *less* Compensation of Employees *less* Depreciation

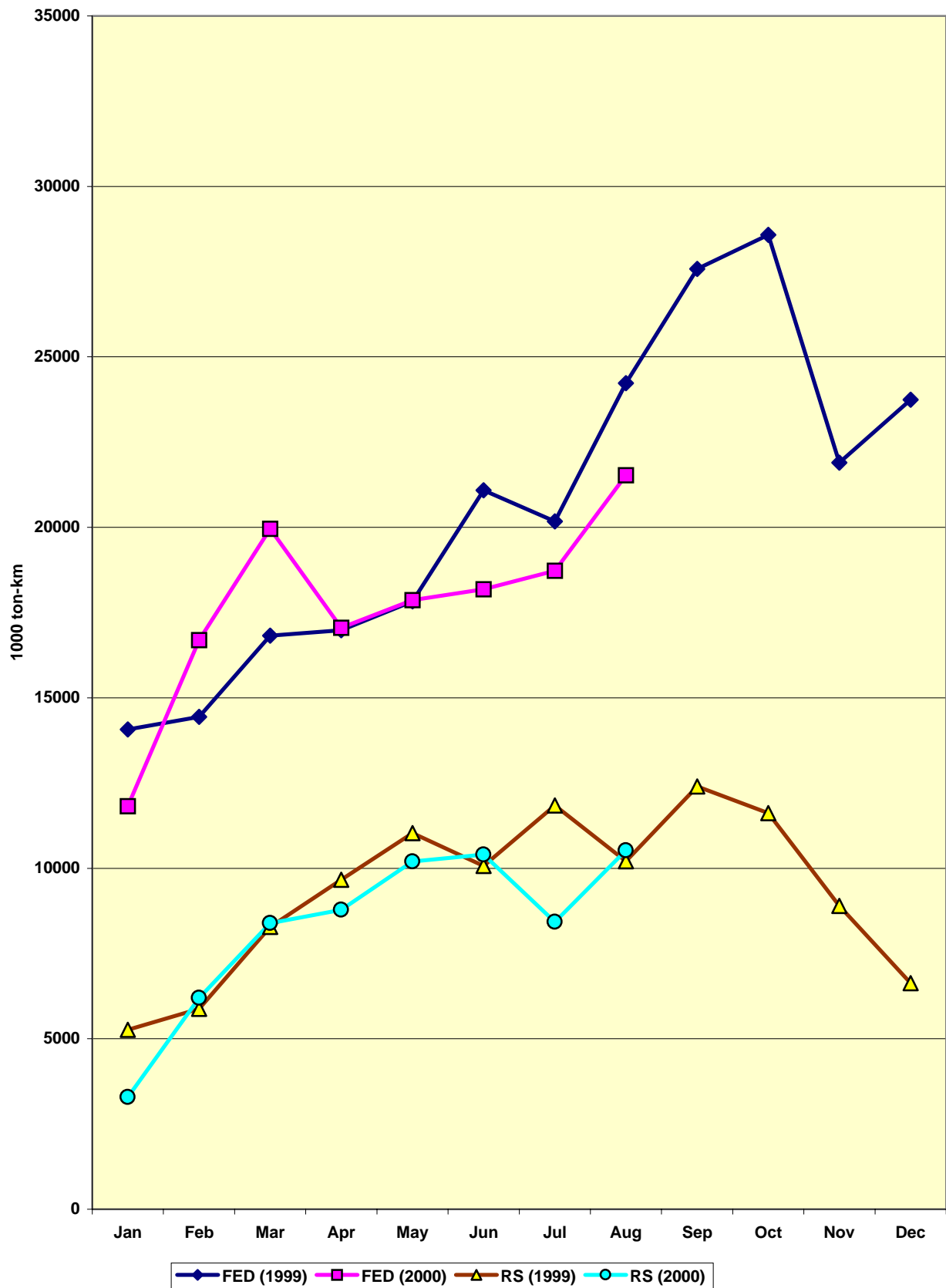




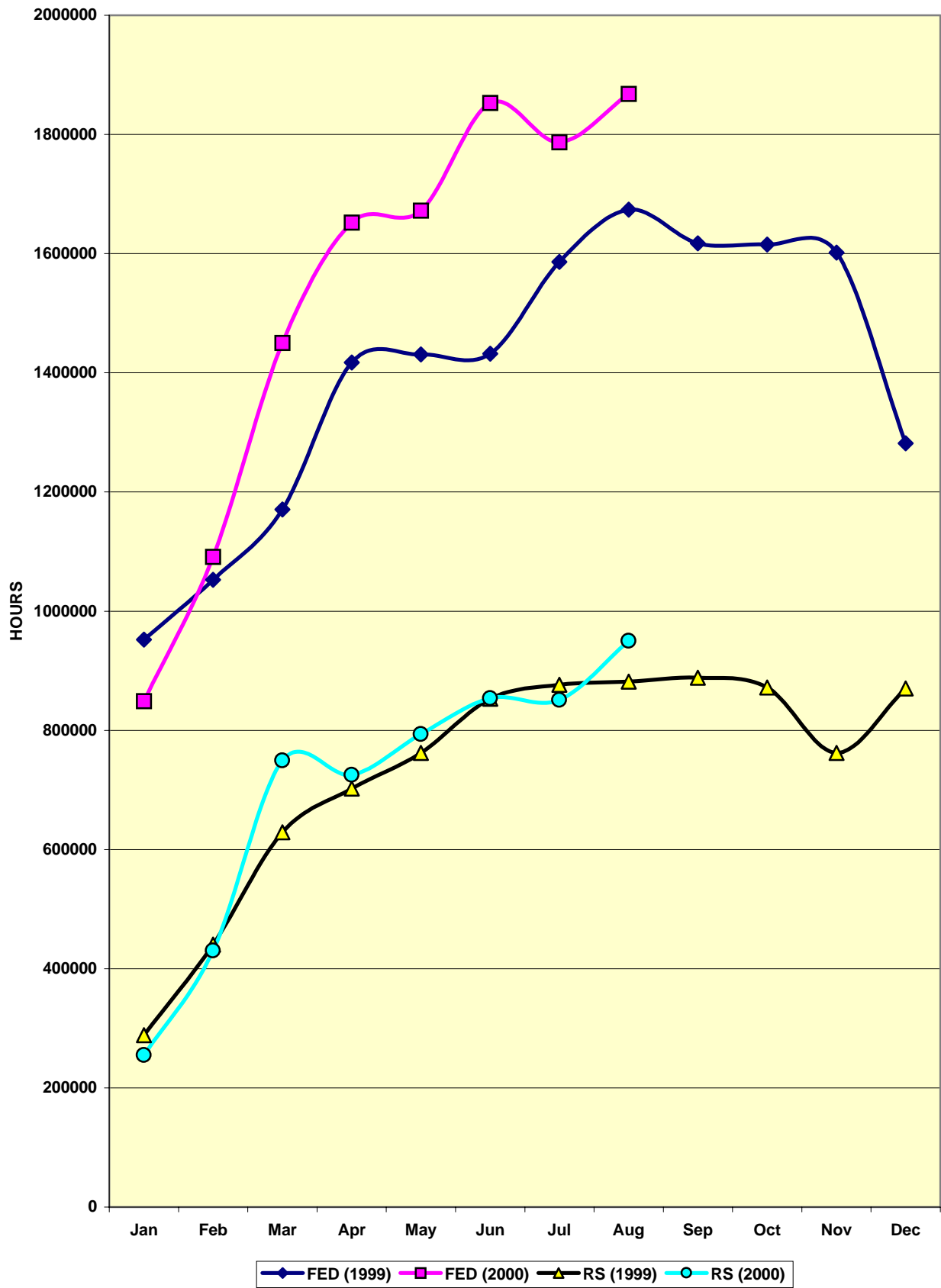
INDEX OF ELECTRIC POWER PRODUCTION



GOODS TRANSPORT BY ROAD



CONSTRUCTION : HOURS WORKED



III. Foreign Trade

Accurate measurement of BiH trade flows has been one of the most difficult areas of BiH statistics. The RS Statistical Institute now publishes the Customs Department data on trade flows ⁶. The Federal Institute for Statistics experiences serious difficulties in collecting data. Other than the trade data from the Federation Institute of Statistics, there are two sources of trade statistics : CAFAO and the IMF Direction of Trade Statistics (DOTS).

Official Federal Institute for Statistics data are based on reports from customs houses in the case of imports and from enterprises in the case of exports. CAFAO estimates the value of trade flows using data on receipts of the 1% customs evidencing charge. Both sources are incomplete but the CAFAO data are felt to be more accurate.

The IMF uses trade reports from BiH's trading partners to estimate imports and exports. The advantage is that a picture is drawn about total BiH imports and exports. The weakness is that trade with Yugoslavia is not included at all, which is a serious gap considering that the RS maintains strong trading relations with the FRY. ⁷

The size of the problem becomes clear when looking at data for **1999** :

Imports (BiH) according to IMF-DOTS (converted to KM)	KM 4,712.0 million
Imports (BiH) according to IMF-DOTS (+ RS imports from FRY)	KM 5,079.1 million
Imports (BiH) according to Fed. Stat. Institute and RS Customs	KM 4,020.0 million
Imports (BiH) according to CAFAO (Fed) and RS Customs	KM 5,286.3 million
Exports (BiH) according to IMF-DOTS (converted to KM)	KM 993.5 million
Exports (BiH) according to IMF-DOTS (+ RS exports to FRY)	KM 1,177.2 million
Exports (BiH) according to Fed. Stat. Institute and RS Customs	KM 943.5 million

The combination of CAFAO and RS Customs data is likely to be the best estimate, at least when making of course abstraction from unrecorded/illegal foreign trade.

The uncertainty about the accuracy of external trade compounds the calculation of the Balance of Current Account. Assuming that the official estimates (CBBH) on the Balance of Trade in Services are accurate, the Current Account deficit *excluding transfers* would have been, in 1999, between KM4,064 million and KM4,271 million. Considering that nominal GDP amounted to KM8,014 million, in 1999, the estimate for the deficit is in the range of **50.7%-53.3%**.

⁶ We are reporting RS statistics 'as is' even though serious doubts remain about data integrity.

⁷ Whereas imports from Yugoslavia accounted for 75% of recorded imports in 1998 (RS), this percentage is now only 23.5% (Jan-Sep 2000). On the other hand, Yugoslavia is still the destination of 39.6% of RS exports in Jan-Sep 2000 (against about 80% in 1998).

Table 5 : Foreign Trade (BiH) (million US\$)

Period	Exports Total	Imports			
		Total	<i>EU</i>	<i>CROATIA</i>	<i>SLOVENIA</i>
1997	372	2,377	943	714	317
1998	491	2,508	1,025	740	350
1999	537	2,547	1,073	595	406
Q1-97	68	609	215	177	73
Q2-97	89	563	238	157	83
Q3-97	107	582	232	192	77
Q4-97	108	624	258	187	85
Q1-98	106	530	219	154	69
Q2-98	110	589	250	171	78
Q3-98	144	668	260	222	95
Q4-98	135	742	313	194	108
Q1-99	116	548	221	133	83
Q2-99	122	622	257	167	100
Q3-99	144	660	274	155	109
Q4-99	155	717	321	141	114

Source : DIRECTION OF TRADE STATISTICS (IMF)

Table 6 : Foreign Trade (RS)

(million KM)

Period	Exports	Imports
Q1-99	90.2	314.9
Q2-99	69.1	331.8
Q3-99	163.0	485.8
Q4-99	103.1	456.4
Q1-00	106.2	340.5
Q2-00	148.3	479.4
Q3-00	274.6	484.5

Source : Customs Administration

Table 7 : Foreign Trade (Federation) (x1,000 US\$)

Period	Exports Total	Imports				Imports (x1,000 KM) ****
		Total	EU	CROATIA	SLOVENIA	
1997	108,683	1,544,970	685,717	295,935	211,664	2,922,680
1998	315,816 *	2,120,297 *	638,003 *	767,466 *	302,591 *	3,515,052
1999	518,081	2,431,152	1,033,910	525,680	314,603	3,697,404
Q1-97	17,600	183,948	64,579	34,233	29,295	596,905
Q2-97	25,503	594,788	299,072	104,034	73,357	717,851
Q3-97	27,206	377,596	160,514	82,390	51,996	788,051
Q4-97	38,374	398,638	161,552	75,278	57,016	819,873
Q1-98						682,616
Q2-98	153,557 **	957,751 **	288,506 **	335,126 **	133,208 **	819,391
Q3-98	100,982 *	559,235 *	165,271 *	70,761 *	81,096 *	920,395
Q4-98	97,277 *	603,311 *	184,226 *	361,579 *	88,287 *	1,092,651
Q1-99	68,851	324,941	95,755	92,070	50,523	728,874
Q2-99	119,448	452,431	154,274	139,717	73,954	884,899
Q3-99	195,149	940,726	460,872	174,100	95,359	921,729
Q4-99	134,633	713,054	323,009	119,793	94,767	1,161,903
Q1-00	131,258	538,225	244,758	81,902	81,205	801,909
Q2-00	134,239	462,502	142,264	100,345	81,873	1,033,148
Q3-00	51,533 ***	255,912 ***	97,487 ***	42,020 ***	39,914 ***	1,118,140

Source : Federal Institute of Statistics (US\$ figures)

Note : * = new data from Customs

** = Q1 and Q2 combined (new data from Customs)

*** 2 months only

**** Source is CAFAO (KM figures; derived for customs evidence)

In the Federation, the twenty largest exporters accounted for 36.6% of total exports (1999). These exporters also accounted for 8% of employment in the Federation. Among the top-100 companies in the Federation, export value per employee is five times larger in private companies than in State-Owned Enterprises.

Table 8 : Current Account**(x1,000 KM)**

Category	Federation <i>Jan-Dec 1999</i>	Federation <i>Jan-Jun 2000</i>	RS <i>Jan-Dec 1999</i>	RS <i>Jan-Jun 2000</i>
Exports (goods; f.o.b.)	740,974	255,314	425,406	344,513
Imports (goods; f.o.b.)	3,731,889	819,877	1,588,936	1,467,875
Balance of Trade	-2,990,915	-564,563	-1,163,530	-1,123,362
Services (net)	-169,783	-8,709	7,852	-28,932
Current transfers	262,624	25,851	24,964	130,226
Current Account	-2,898,029	-547,421	-1,130,714	-1,022,068

Source : CBBH, Bulletin No4-1999 and Bulletin No2-2000

The Current Account deficit fuels External Debt. On the other hand, debt rescheduling agreements in the last three years brought down the level of outstanding debt as well as the debt service. How do debt and debt service compare with other countries?

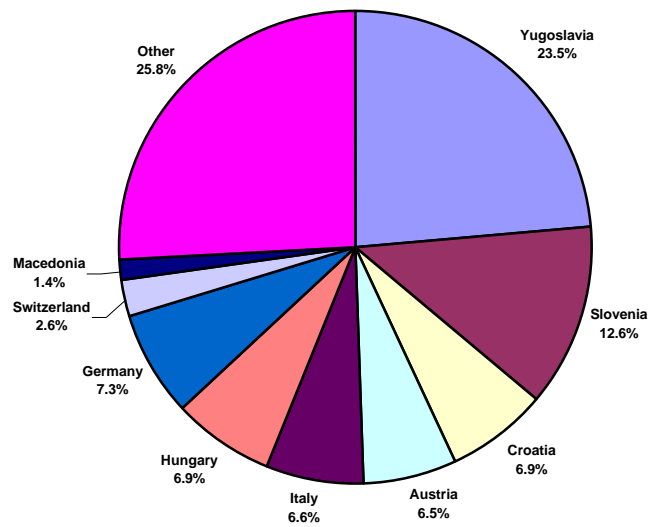
	Debt/GNP	Debt service (% exports of gds & serv.)
Bosnia and Herzegovina	74%	10%
Emerging economies	77%	27%
Transition countries	61%	13%
Petroleum-exporting countries	89%	26%
Poor countries	84%	20%

Note : the petroleum-exporting countries analyzed are Algeria, Cameroon, Nigeria and Venezuela

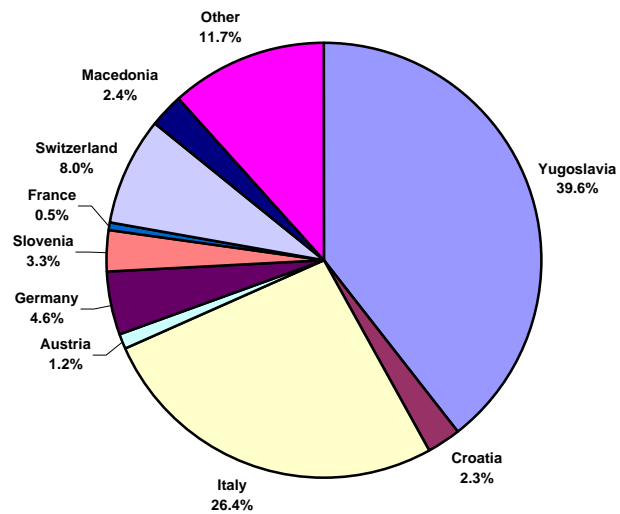
Considering that the BiH debt/GNP ratio exceeded 180% in 1995 and that the current debt service is only 10% of still extremely low exports, one can easily appreciate the size of the debt rescheduling effort undertaken by the international community.

Direction of Trade in the RS

IMPORTS (KM million; January-September 2000)



EXPORTS (KM million; January-September 2000)



IV. Labor Market

Population and labor market data are no better than the statistics on foreign trade. The “true” unemployment rate is difficult to calculate since, in the absence of a census and household surveys, both the numerator and denominator are guesses, at best.⁸

The Federal Institute for Statistics estimates the Federation **population** at 2,297,774 (as of December 31, 1999) against 2,243,789 one year earlier. However, in the calculation of GDP per capita, the Institute assumes a 1999 population of 2,829,774. The RS Statistical Institute still estimates the 1999 RS population at 1,448,537. The BiH population is estimated at 3.75 million, compared to UNHCR’s 1997 estimate of 3.9 million.

In the **Federation** (August 2000), the level of registered employment is 30,599 units higher (8%) than in January 1998. As a reminder, industrial production increased 53% in the same period. Registered unemployment was 268,172 (August 2000) against 264,572 one year earlier.⁹ ‘Waitlisted’ persons were 50,123 in August 2000, a decrease from 86,884 in January 1998.¹⁰ ‘Waitlisted’ persons are recorded as registered employed; therefore the number of full-time or ‘non-waitlisted’ registered employed increased from 295,277 (January 1998) to 362,637 in August 2000, which is a more robust + 22.8%. Clearly, a number of ‘waitlisted’ persons shifted to either full-time employment or to unemployment status.

In the **Republika Srpska**, data on employment are scarce. Unemployment was rising until April 2000 (157,630 unemployed) and falling to 153,384 in June.¹¹ In 1999, only 2.8% of the unemployed received an unemployment benefit, averaging KM36.6 per month.¹²

How rigid is the labor market ? The following observations point at labor market rigidities:

- net wages continue to increase significantly in spite of a high unemployment rate (even though one may rightly wonder how representative reported ‘net wages’ really are);
- real unit labor costs (in the Federation) remain virtually constant (when *seasonally* adjusted) since 1997; taking 1997 as the base year (Index = 100), real unit labor costs averaged 99.6 in 1998, 95.5 in 1999 and 99.1 for the last twelve months (up to August 2000)¹³ ;

⁸ Quite a number of workers go unreported. Trade Unions in the RS believe that there about 25,000 ‘illegal’ workers. A government source in the Federation believes that 20% of the active population work ‘illegally’.

⁹ No more than 1.5% of the unemployed receive an unemployment allowance, typically for a period not exceeding 6 months. Unemployment benefits for a longer period (up to 24 months) are available only to those who have been continuously employed for five years or more. A new draft law reduces the maximum duration of benefits to 6 months, with a maximum replacement rate of 45% of the average monthly wage.

¹⁰ ‘Waitlisted’ are defined as workers “... for whose work there is temporarily no need due to the decreased scope of work *during a state of war...*” (1992).

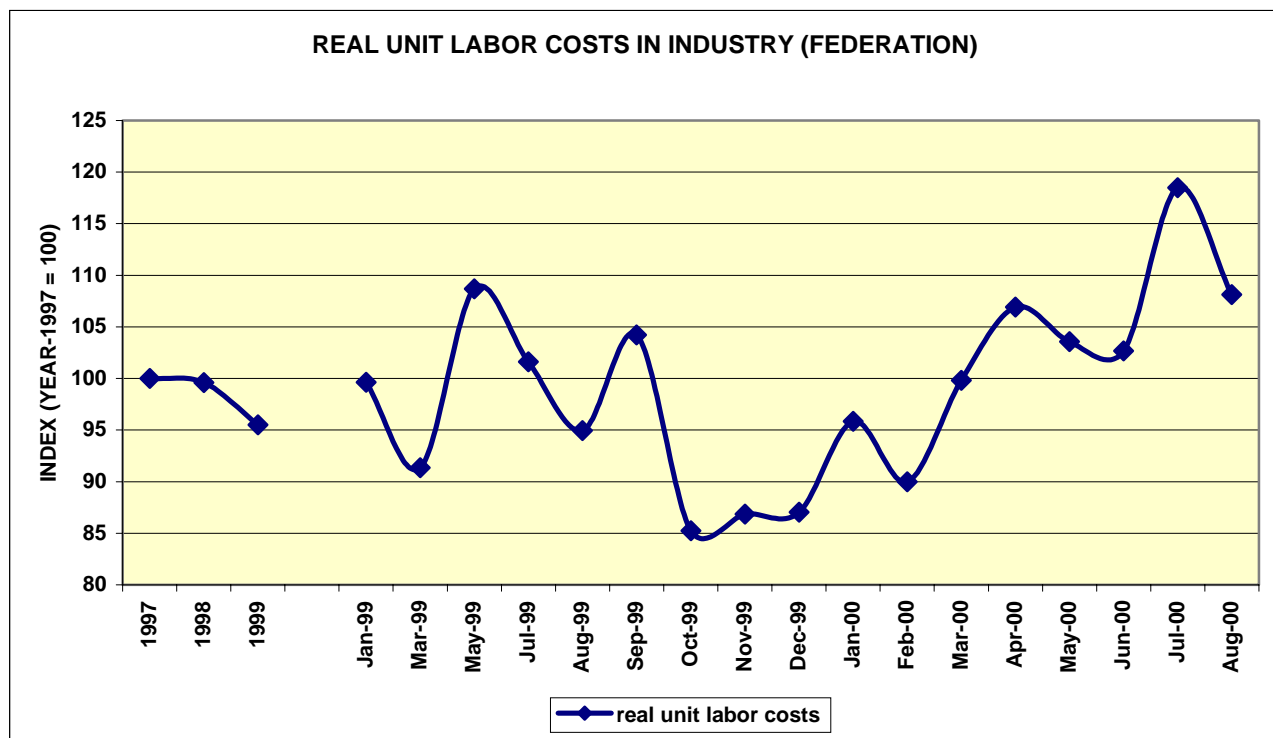
¹¹ The Employment Bureau in Banja Luka counted 44,668 unemployed in its reporting territory. Among them were only 450 university graduates.

¹² A new law on Employment and the Rights of the Unemployed sets the maximum duration of unemployment benefits to 12 months (down from 30 months) with a maximum replacement rate of 40%.

- sectoral differences in net wages are not large ;
- regional differences in net wages paid out are also not large; in the Federation, net wages in the Canton with the highest average is only 49% higher than in the Canton with the lowest average net wages (average for January-August 2000);
- reported net wages paid to the public administration exceed *average* net wages paid by 31% (average of January-August 2000) in the Federation and by 29% (November 1999) in the RS;
- reported gross wages in government are about 3.7 times GDP per capita.

Another cause for worry is the situation of the pension funds. The low employment ratio implies that for every pensioner (**Federation**) only 1.53 employees (including the ‘waitlisted’) are contributing into the pension fund. In the period January-July 2000, the average net wage was 2.28 times the average pension paid out.

In the **RS**, the average pension reached KM127.8 (first quarter 2000). The average net wage was 1.95 times the average pension paid out. In December 1999, for every pensioner only 1.46 employees were contributing into the pension fund. Since then the situation has worsened.



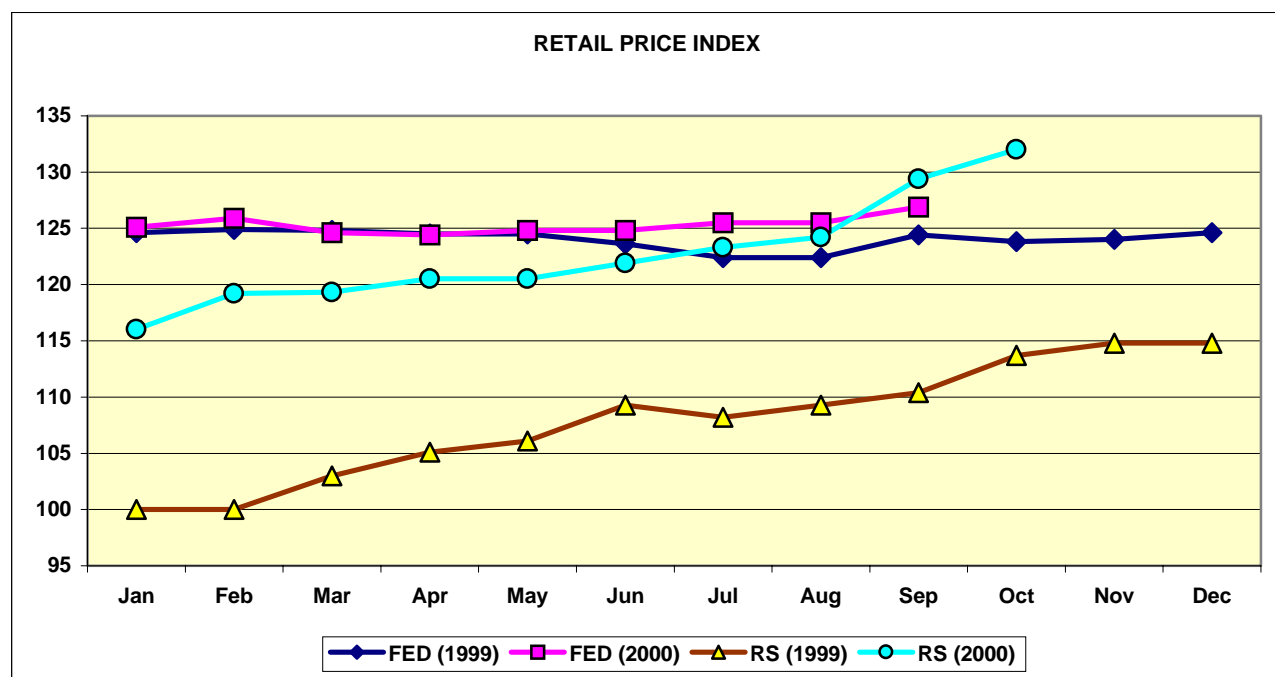
¹³ The index of *real unit labor costs* is constructed as follows : real product wages deflated by productivity. Real product wages are nominal gross wages deflated by industrial producer prices. Productivity is industrial production (index) deflated by industrial employment. The index therefore roughly measures the change in the relative wage share and, *ceteris paribus*, the change in “profit margins”.

V. Prices, Wages and Exchange Rates

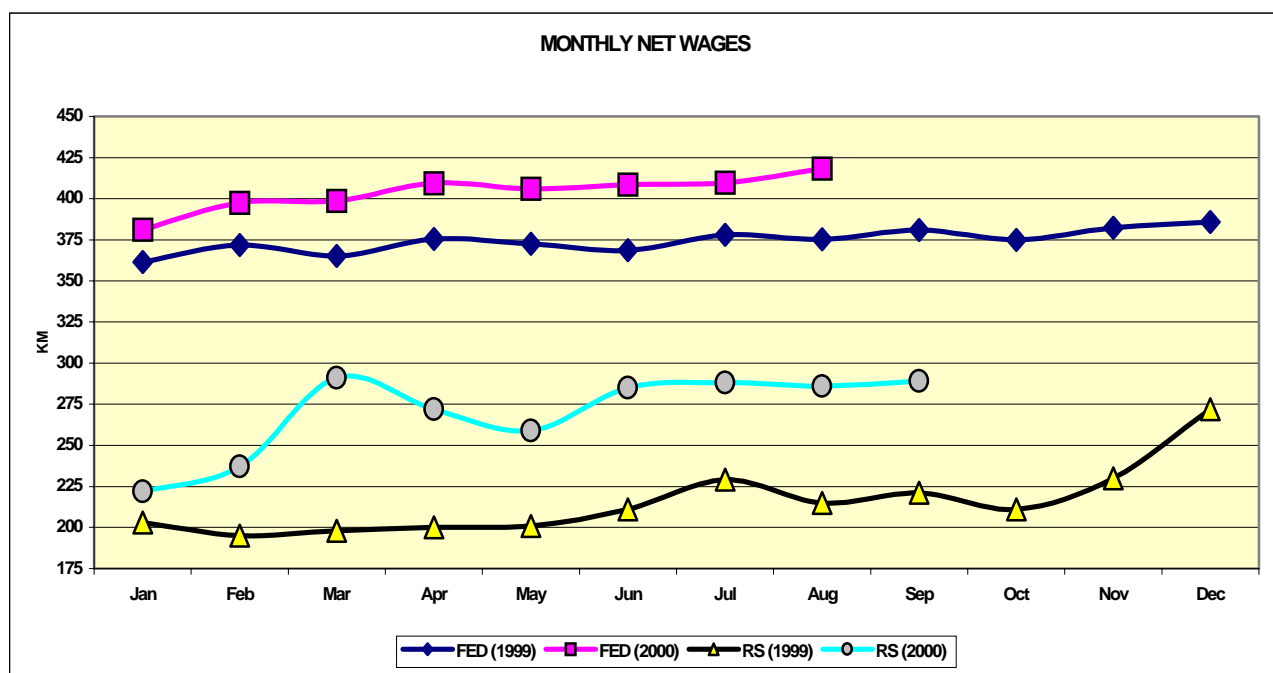
After 12% price inflation recorded in 1997, inflation decelerated in the **Federation** in 1998, to 5.1%. This trend continued into 1999 and 2000 with retail prices remaining virtually stable. Similarly, producer prices remained stable in the first nine months of 2000 compared to the same period in 1999.

The average price level in the **Republika Srpska** increased by 38% in 1998 compared to 1997. However, inflation was calculated on the basis of an index expressed in Yugoslav Dinar (YD); when inflation caused by the depreciation of the Dinar is taken out, inflation was actually less dramatic. Since the start of 1999, the RS Institute of Statistics computes the retail price index based on prices recorded in Konvertible Marka (KM), rather than YD prices. This index initially showed little price inflation. However, thereafter inflation has indeed been creeping at an average (compounded) monthly rate of **1.2%**, led by price increases of agricultural products and services. The better part of this price inflation – at least until March 2000 -- can be explained by the adjustment of prices in the RS to the price level in the Federation.

For the period 2000-2005, the World Bank Group assumes annual price inflation of 3%.



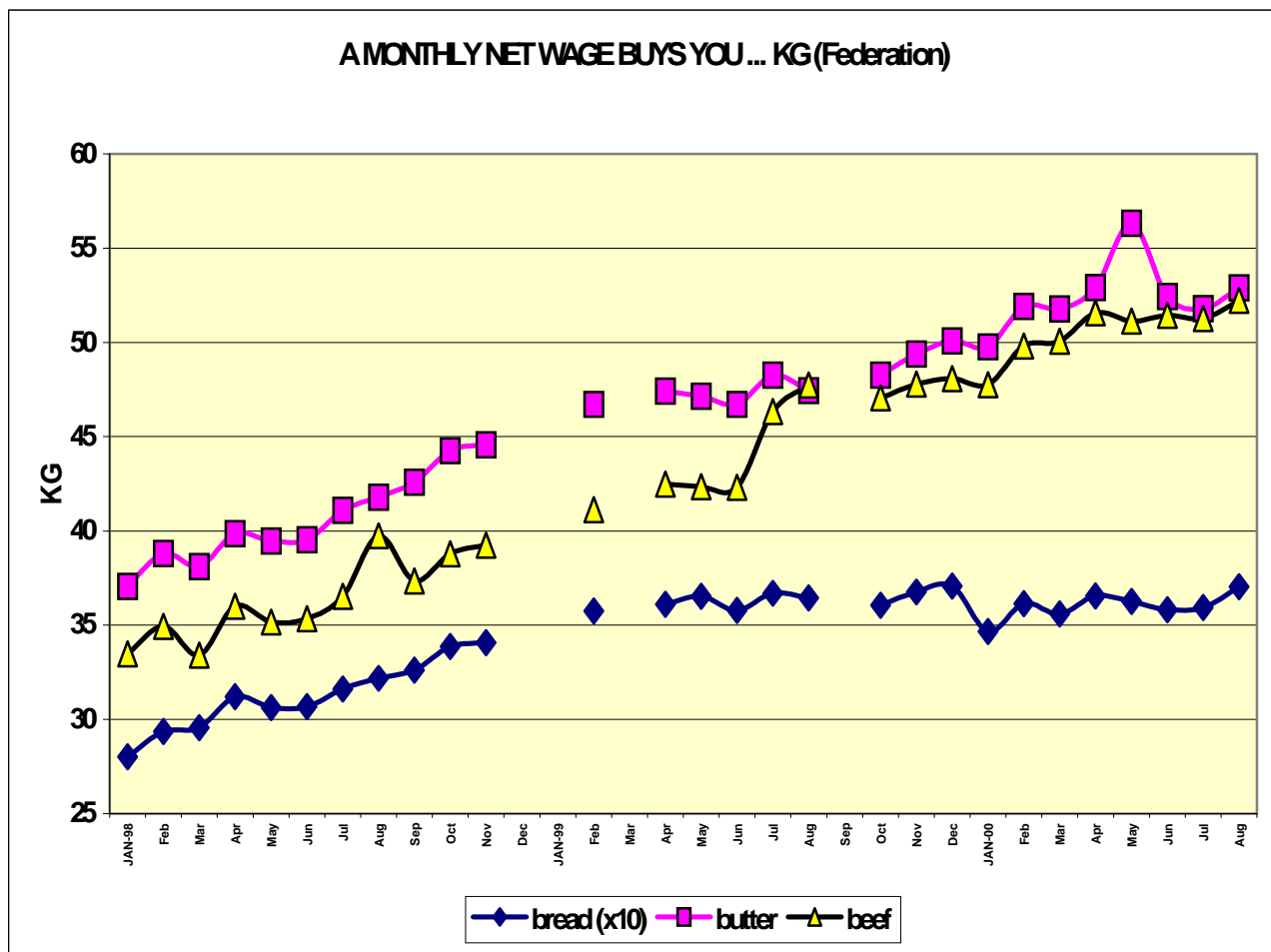
Wages and Purchasing Power



Both in the Federation and in the RS, net wages continued to edge upwards.

Instead of constructing a **real** net wages index, we calculate what an average monthly net wage can buy. In the **Federation** (August 2000), one monthly net wage of KM418.4 bought 370kg of bread or 53kg of butter or 52kg of beef. This is a significant increase in purchasing power compared to January 1998 when the monthly net wage bought 280kg of bread, 37kg of butter or 33kg of beef. This positive trend is not entirely to be attributed to increasing wages, but also to slightly decreasing prices for these three commodities.

In the **RS**, the average monthly net wage (expressed in YD) paid out in December 1998, bought 284kg of bread, 14.5kg of butter or 18kg of beef. In June 2000, the average monthly net wage of KM285 bought 425kg of bread, 25.7kg of butter or 29.7kg of beef. These figures illustrate the lower wage earned in the RS as well as the different relative prices compared to the Federation.



Exchange Rates

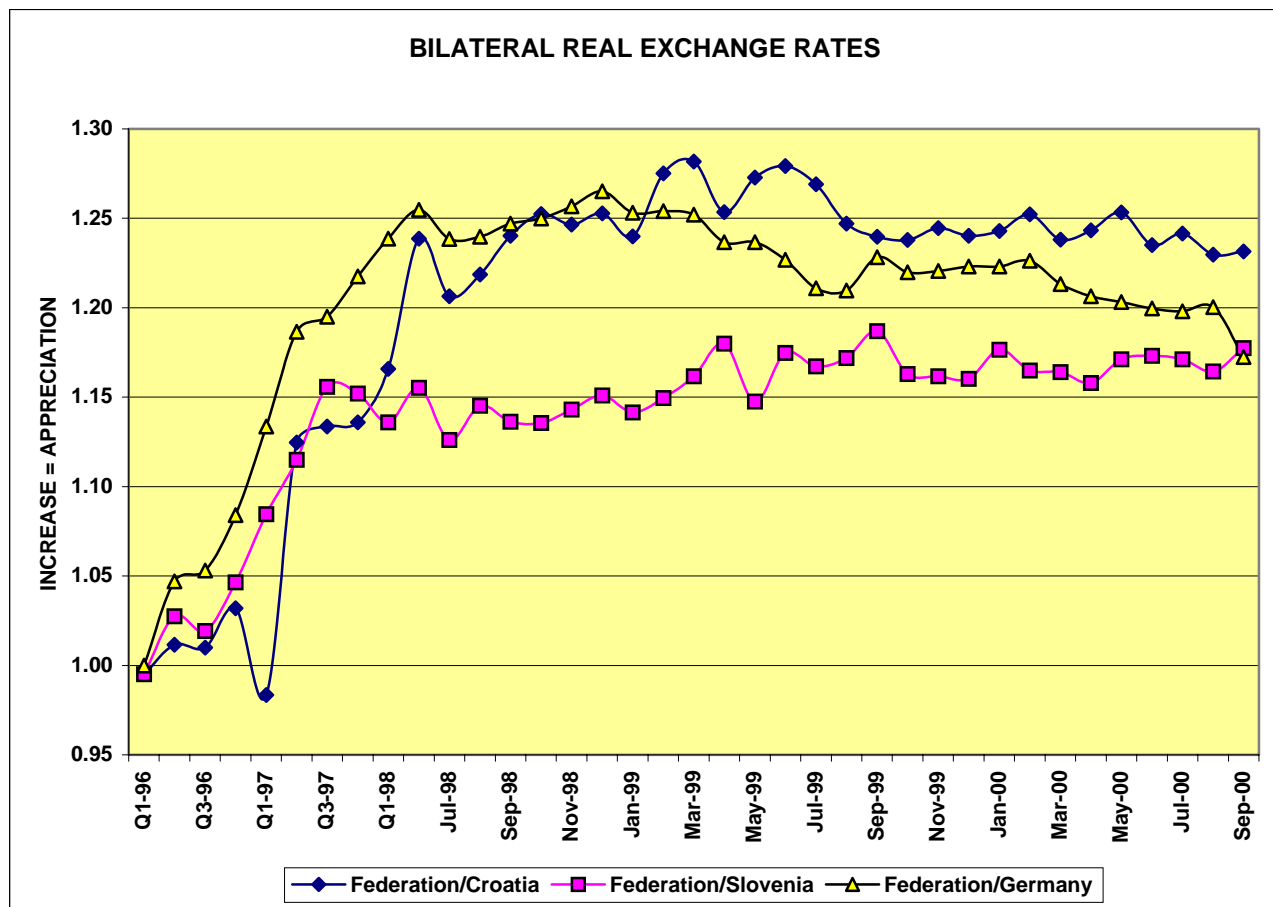
BiH Economic Update (April 1999) introduced the Real Effective Exchange Rate (REER), i.e. the *real* exchange rate of the BiH KM versus the currencies of the Federation's trading partners. The real exchange rate affects the level of imports and exports. If the real exchange depreciates, then imports become less attractive to BiH citizens, and BiH exports become more attractive to foreign countries. If the real exchange rate appreciates, then the reverse is true. Because the nominal exchange rate of the BiH KM is fixed against the Deutsche Mark (DM), BiH authorities cannot manipulate the real exchange rate. The real exchange rate thus depends on the differential price trends only. The REER underwent little change since early 1997. The graph below shows **bilateral real exchange rates** (RER) with Croatia, Slovenia and Germany. The currency appreciated (in real terms) against the Slovenian Tolar until Q3-97, the Croatian Kuna until Q2-1998 and the DM until Q2-1998. In recent months RERs remained virtually flat.

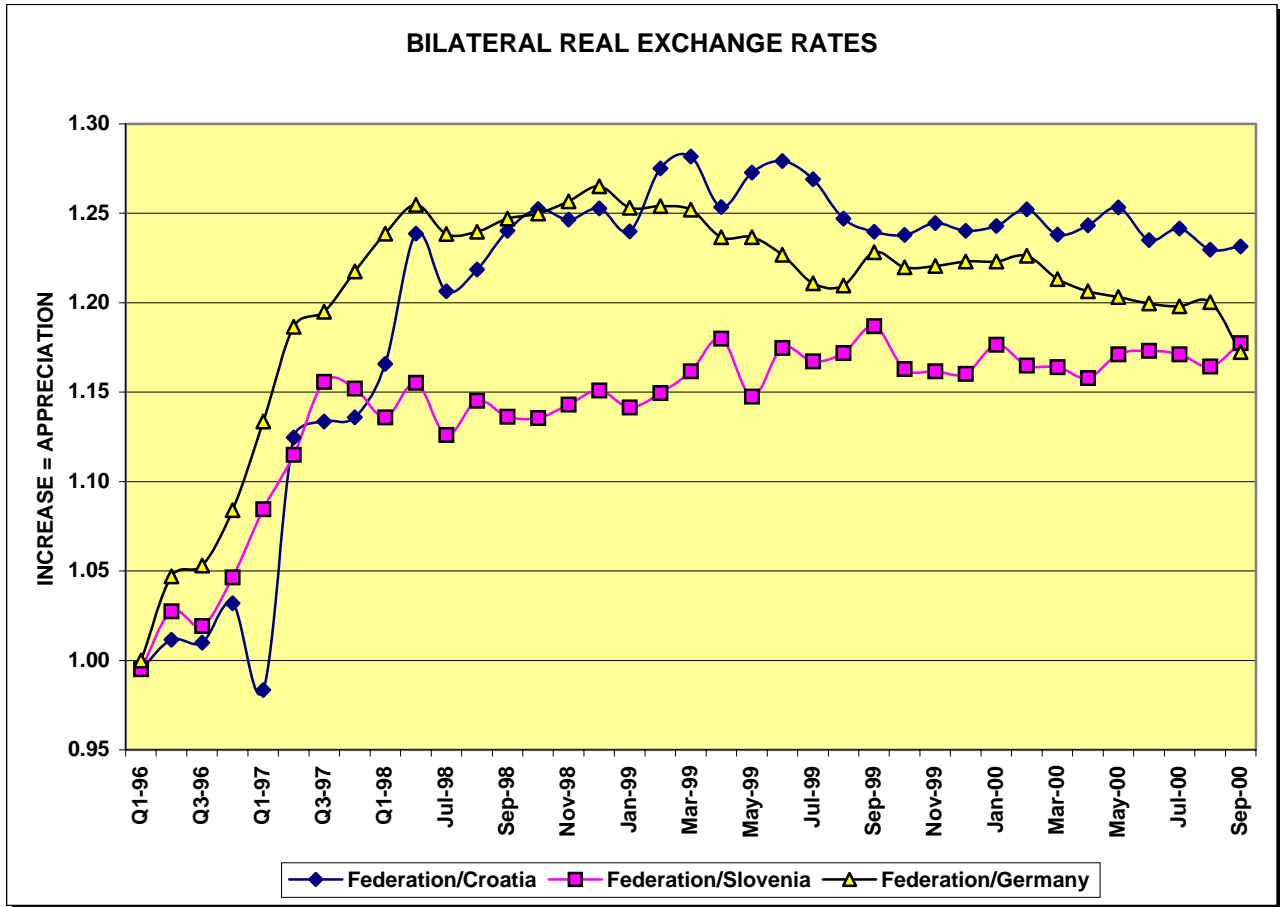
The REER being a relative concept (i.e. it measures trends in exchange rates) rather than absolute differences in purchasing power, we constructed a butter exchange rate.¹⁴ Like the

¹⁴ Not unlike the "hamburger" methodology applied by 'The Economist' to calculate equilibrium exchange rates.

hamburger case, butter is very much a standard commodity in BiH. If purchasing power parity holds, then one dollar should buy as much butter in London as it does in Sarajevo. Does it ?

In the first quarter of 2000, one kilogram of New Zealand butter sold in London (retail market) would have cost US\$ 3.37. In the Federation retail market, butter sold at the equivalent of KM7.67 per kilogram. The implied purchasing power parity exchange rate would have been KM2.28 for US\$1 whereas the market exchange rate actually stood at KM1.98 – US\$1, an indication that the KM (and DM) was overvalued. By this butter standard, the nominal exchange rate of 2.2425 in September 2000 would be more in line with the ‘equilibrium’ rate.





VI. Fiscal Indicators

The government system of BiH is very decentralized. Economic responsibilities of the State government are limited to areas of foreign trade policy, external debt servicing, customs policy and monetary policy (i.e. the Central Bank, which operates as a currency board). Entity governments are in charge of areas not specifically assigned to the State. Furthermore, in the Federation, substantial power is devolved to the 10 Cantons, where the Canton administrations are responsible for public services, education, social transfers and other matters.

The government is prohibited from taking credits from the Central Bank, or borrowing from the public or commercial banks, as that would violate the rules of the currency board, and IMF agreements. The government is thus constrained by tax and non-tax revenue, in addition to foreign loans and grants. Whenever a revenue shortfall is anticipated, budgetary expenditure needs to be revised downward.

As the government cannot have recourse to domestic borrowing, the focus is on revenues. CAFAO's data for the **Federation** indicate an increase of 8.8% in tax revenues (last 12 months up to September 2000 compared to the previous period). Data for the **RS** indicate an increase of 26.6% in public revenues (last 12 months up to September 2000 compared to the previous period).¹⁵

According to our calculations, fiscal pressure in the Federation could have been as high as 48.9% in 1999 -- perhaps slightly lower in 2000 -- against 32.4% in the RS (and probably higher in 2000 as a result of higher tax collection efficiency).

The provision of large amounts of donor funding has facilitated a large public expenditure program while enabling BiH to maintain fiscal stability. The present level of government spending is however excessive. A major effort must be undertaken to enhance revenue mobilization by widening the tax base rather than raising tax rates, reducing public spending, improving expenditure management, re-balancing recurrent expenditures, or restructuring the Social Security System.

¹⁵ Both entities are currently behind in revenue collection compared to original revenue projections. The gap was (mid 2000) KM140 million in the Federation and KM200 million in the RS. One persistent reason for the shortfall is tax evasion in the area of customs and sales taxes, estimated by CAFAO to be around KM500 million.

Table 9 : Total Public Revenue (Federation)**(million KM)**

Description	Jan-Dec 1999	Jan-Jun 2000
Federation, Canton and Municipalities	1,847	928
Social Insurance Funds	918	482 *
Other	86	42
TOTAL	2,851	1,452

Source : CBBH

* of which KM263 million for pension/disability insurance and KM188 million of health insurance

Table 10 : Total Public Revenue (RS)**(million KM)**

Description	Jan-Dec 1999	Jan-Jun 2000
Public Revenue	428	298
Social Insurance Funds	185	142 *
TOTAL	613	440

Source : CBBH

* of which KM73 million for pension/disability insurance and KM58 million of health insurance

Table 11 : Consolidated Tax Revenue (Federation)**(million KM)**

DESCRIPTION	FEDERATION	CANTON	MUNICIPALITY	TOTAL
1998				
Customs Tariff Duties	304.9			304.9
Import Excises	265.7			265.7
Domestic Excises	54.9			54.9
Sales Taxes		644.3	66.0	710.3
Wage Taxes		167.2	34.9	202.1
Company Profit Taxes	10.3	66.0	2.7	79.0
Property Taxes		13.7	33.4	47.1
Other		6.2	2.5	8.6
TOTAL	635.7	897.4	139.4	1672.5
1999				
Customs Tariff Duties	345.2			345.2
Import Excises	240.3			240.3
Domestic Excises	74.2			74.2
Sales Taxes		692.3	69.7	762.0
Wage Taxes		182.1	38.2	220.3
Company Profit Taxes	17.5	28.9	1.3	47.7
Property Taxes		13.2	36.7	49.9
Other		7.6	3.4	11.0
TOTAL	677.3	924.2	149.3	1750.8
2000 (Jan-Sep)				
Customs Tariff Duties	301.3			301.3
Import Excises	172.1			172.1
Domestic Excises	55.6			55.6
Sales Taxes		511.4	54.1	565.5
Wage Taxes		132.9	28.4	161.3
Company Profit Taxes	17.8	16.7	0.9	35.4
Property Taxes		11.0	28.6	39.6
Other		5.2	3.1	8.3
TOTAL	546.8	677.2	115.1	1,339.1

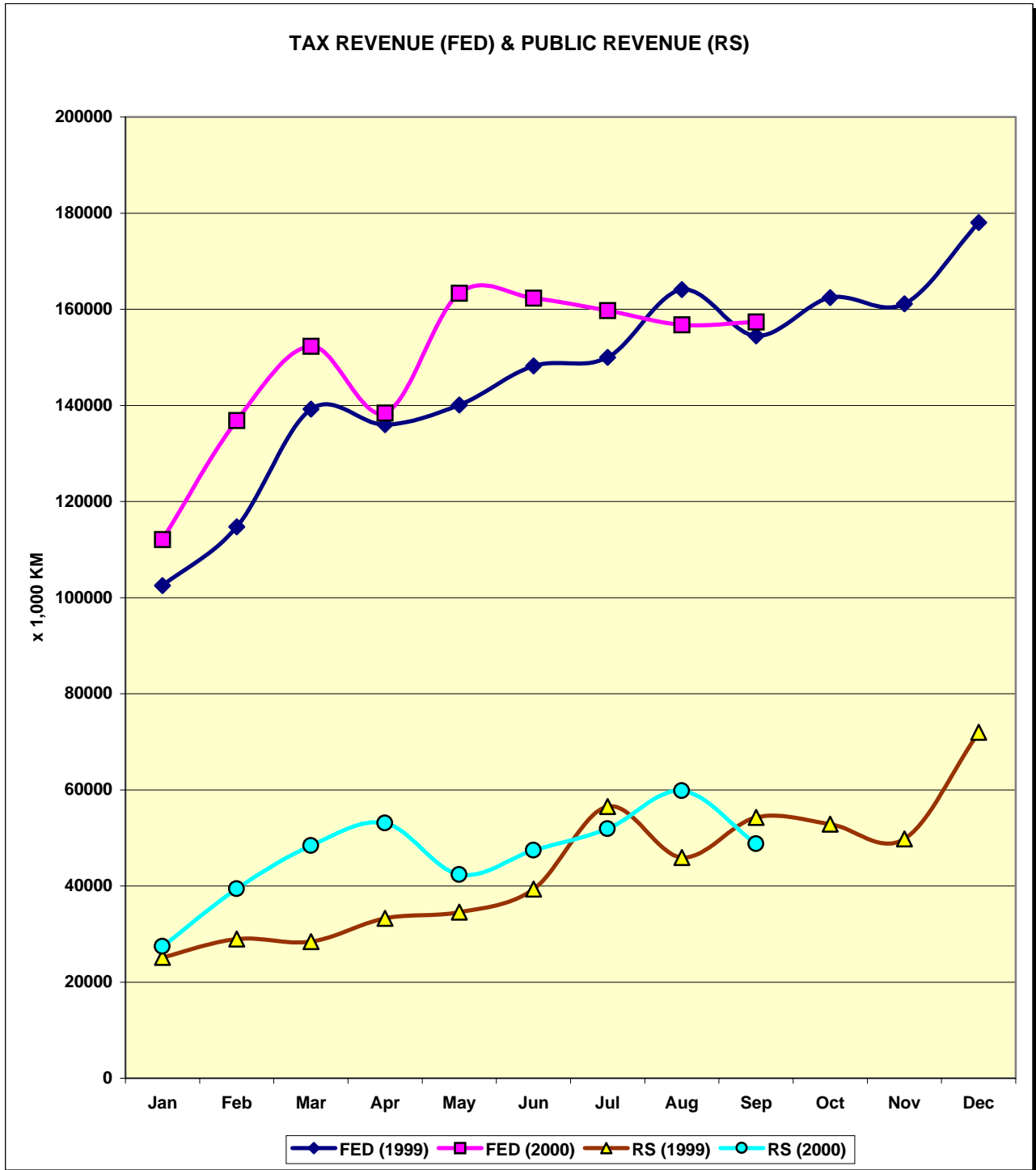
Source : CAFAO

Table 12 : Public Revenue (RS) excl. social insurance

(million KM)

DESCRIPTION	
1998	
Customs Duties	89.2
Excise Duties	69.2
Sales Taxes	136.5
Corporate Profit Taxes	8.7
Personal Income Taxes	33.1
Other	97.3
TOTAL	434.0
1999	
Customs Duties	137.9
Excise Duties	91.6
Sales Taxes	125.2
Corporate Profit Taxes	9.9
Personal Income Taxes	45.1
Other	111.5
TOTAL	521.2
2000 (Jan-Sep)	
Customs Duties	120.5
Excise Duties	47.2
Sales Taxes	96.0
Corporate Profit Taxes	12.6
Personal Income Taxes	38.2
Other	104.1
TOTAL	418.6

Source : CAFAO



VII. Monetary and Financial Sectors

A. BANKING

Since the establishment of the Central Bank of BiH¹⁶ in August 1997, substantial progress has been achieved in promoting use of the KM. The currency board has contributed to price stability. One could claim that the currency board arrangement restricts commercial banking development. However, the technical insolvency, under-capitalization and inadequate commercial or retail banking are more serious constraints, as is the existence of the payment bureaus.

According to Entity bank privatization laws, all state-owned banks in BiH will be privatized or liquidated, if insolvent, by 2000. In order to avoid liquidation and/or formal privatization, a wave of bank mergers and re-capitalization is observed (in the Federation, this is due, in part, to the provisions of the commercial banking laws that doubled the size of net capital from KM 2.5 million to KM 5 million as of April 23, 1999).^{17 18} Restructuring of the financial sector in both Entities is anticipated to lead to a reduction in the number of banks from the initially 18 State-Owned and 53 private banks to about 15-20 stronger banks.

In the **Federation**, as of June 30, 2000 there were 39 banks operating (of which 10 have majority state shareholding). Out of these listed, 8 operate with temporary licenses. The number of banks operating is down from 44 six months earlier and down from 55 (including 11 state-owned banks) since December 31, 1998. Compared to December 31, 1999, 1 new license was granted (Volksbank BiH), 7 licenses were revoked, 1 merger took place. All these movements took place in the private sector. Since then, Raiffeisen Zentralbank from Austria has bought into Market banka. By October, 2000 ten banks had foreign shareholding. Furthermore, 5 banks have provisional management imposed because they did not fulfill legally prescribed operational conditions. As a percentage of total capital, state-owned banks have 48%. This is higher than in most northern European countries but lower than in certain southern European ones. The number of employees in banks is 4,247.

Deposits make up 26.2% of liabilities. Sixty-nine percent of total deposits are demand deposits. Only twenty-six percent of total deposits belong to households. All three indicators are below Western European benchmarks.

¹⁶ Under the June 1997 Law on the Central Bank of Bosnia and Herzegovina, the Central Bank will operate as a currency board for the first six years of its existence, issuing the new domestic currency (KM) at the fixed exchange rate of 1 KM – 1 DM. During this six-year period the CBBiH is restricted from engaging in the extension of credit through the creation of money (i.e. there is no room for an independent monetary policy as the monetary authority cannot act as a lender of last resort and loses the interest rate as a policy tool; interest rates are market determined and the monetary authorities cannot influence interest rates directly). The CBBiH may impose reserve requirements against KM deposits at commercial banks. Broad money supply expands in connection with foreign financing and private inflows.

¹⁷ Meanwhile, in the RS, minimum capital requirements increased from KM 1.5 million to KM 5 million.

¹⁸ Bank privatization has begun in the RS with four banks tendered so far. The bank privatization is proceeding slowly in the Federation and first tenders are expected this fall.

Return on Assets was negative in the first half of 2000 (-0.22%) with private banks actually recording worse performance (-1.36%) than state-owned banks (0.20%) did. Overall, net interest income is 1.86% of assets (1.20% in state-owned banks and 9.26% in private banks) while fee income is 2.4% of assets (1.94% in state-owned banks and 10.94% in private banks). Total operating expenses are 2.37% of assets (0.84% in state-owned banks and 6.56% in private banks).¹⁹

In the **Republic Srpska**, as of June 30, 2000 there were 17 commercial banks and a Postal Savings banks operating which means an additional one bank compared to December 1999. At the end of 1999, the number of employees in banks is 3,767 (an increase of 205 over December 1998).

As per December 31, 1999, deposits made up 55% of liabilities. Forty-nine percent of total deposits are demand deposits. In December 1998, only 13% of deposits were denominated in KM (the balance being in Yugoslav Dinars). One year later, 95% of deposits were denominated in KM.

Net interest income represents 36%% of total banks' revenue (excluding extraordinary income). Overall, net interest income is equivalent to 1.97% of assets. Other income (excluding extraordinary income) is equivalent to 3.4% of assets. Return on Assets was 1.1%.

Banks have yet to overcome depositor skepticism caused by citizens' experiences with hyperinflation and the loss of foreign exchange deposits as a result of the 1992-95 civil war, as well as to diversify their services and adopt a rational fee structure. The introduction of the deposit insurance agency and one or more foreign banks in each entity will enhance the public's confidence in the BiH banking sector.

Term lending is funded almost exclusively from donor credit lines, at attractive interest rates linked to London Interbank Offer Rate (LIBOR) e.g. USAID's Business Finance (BF) program. Interest rates on short-term credits are high, although they have come down since December 1997 and are subject to large variances. The high rate on short-term loans reflects the scarcity of deposits and the risk of default. Whereas the regulatory environment has improved and financial sector restructuring is underway, intermediation remains marginal in terms of new credits to the private sector.²⁰ The basic reason is that a) household (financial) savings are low, b) many enterprises are loss-making, c) cash flow generated in state-owned enterprises is reinvested. As overall domestic saving is low, one cannot expect high levels of intermediation and credits to the private sector.

¹⁹ By comparison, in the EU, the net interest margin averages 2.7% and overhead costs average 2.8%.

²⁰ For this reason also, the balance sheet total of banks is not showing (yet) a significant upward trend.

B. PAYMENTS SYSTEM

The payments bureaus (ZPP, ZAP, SPP) are a legacy of the socialist economic system. In addition to providing – rather inefficiently -- payments services, the payments bureaus carry out a series of functions not compatible with a *clearing house* in a market economy.

The Payment Bureau was an institution created for the purpose of controlling social resources in order to meet the objectives of a planned economy. The Payment Bureau exercises monopoly control over the nation's payment system, obtains economic information in order to control the distribution of social resources, creating inefficiencies which discourage domestic businesses from operating legally, and producing disincentives for attracting foreign investment. Besides the payment services, Payment Bureau performs other activities not necessary related to its basic function, such as a statistical function, the treasury function, collection and information on public revenues function etc.

Following the decision of the Madrid Conference in December 1998, the Entity Governments in BiH will eliminate the Payment Bureaus by December 31, 2000. In the process, the international community created the International Advisory Group (IAG) with the purpose to provide financial and technical resources necessary to eliminate the Payment Bureaus as well as to enhance the political commitment. The IAG produced the implementation plan, in coordination with the Entity governments, calling for orderly dismantling of the Payment Bureaus and its final elimination by December 2000.

The legal framework for the elimination of the Payment Bureaus was created with the adoption of Amendments on the Law on Internal Payments (Federation), and creating a new Governance Board which is given a specific mandate to transfer all functions of the Bureaus to the appropriate public or private sector institution. The amendments eliminated the monopoly of the Bureaus in offering payment services and allow banks to engage in payments services. A new law on Internal Payments System in the RS will harmonize the financial environment in the RS with the Federation.

Until early October 2000, the Federation Banking Agency had issued 25 licenses for low risk payment services, while 19 banks received licenses for low AND medium risk payments services. In the RS, 9 banks are licensed for low risk, and 7 for performing low risk AND medium risk payment services. Simultaneously, the Central Bank is working to install the RTGS (Real Time Gross Settlement) system and the clearing system that will be fully operational by the end of the year.²¹ Banks are asking to get SITA connection, which is required for the RTGS.²²

²¹ Clearing will be performed in three centers (Sarajevo, Mostar, Banja Luka) and in the Central Bank. Payments between two banks from the same territory will be done by the regional clearing house. When the two banks belong to different territories, the clearing will be done by the Central Bank. All transactions larger than KM30,000 (high-risk transactions) will be done by the Central Bank. The necessary equipment and software is installed and testing is to take place in November-December.

²² There exist concerns that the banks may not be physically ready for the new configuration of the payments system. The Payments Bureaus are thinking of forming a service institution that would provide a range of services

In the RS, it was necessary to first separate the Payment Bureau from the Development Bank. This was accomplished in March 2000. Further transformation steps will be undertaken in a way similar to the planned activities in the Federation.

In accordance with specific tasks and problems in regards to the transfer of each functional area, the IAG has formed 8 working groups. Their mandate is to negotiate a plan acceptable to both the Payments Bureaus and the receiving institutions for moving each function to its new home. The working groups are:

- Statistics (transfer of the function of collection and analysis of statistical data from the Payments Bureaus to the Entities' statistical institutes).
- Tax (the tax administration will receive all relevant data, from the commercial banks, pertaining to taxes once the banks start performing internal payment transactions).
- Customs revenues (transfer of the function of collection and data reporting of customs revenues from the Payments Bureaus to the Customs administrations).
- Payments Systems (development of an efficient payment system to replace the current system by a commercial banks-led system).
- Public revenues (transfer of the accounting function from the Payments Bureaus to the Ministry of Finance and creation of regional Treasuries).
- Privatization (entity Privatization Agencies will take over the PB's role in the process of privatization).
- Legal (addressing legal issues of the process of the elimination of the PBs and the transfer of its functions to private and public sector institutions).
- Coordination (synchronization of all transfers).

such as third-party processing, off-site storage for banking data for banks, creation of a Credit Bureau, cash transport etc.

Table 13 : Monetary and Financial Sector Survey**Million KM**

End-of-period	Broad Money (M2)	Narrow Money (M1)	Commercial Banks Claims on the Economy (excl. Gov.)		
			BiH	Federation	RS
30.09.97	971	354			
31.12.97	1,178	252	2,306	1,764	538
31.03.98	1,166	235	2,603	1,845	757
30.06.98	1,140	202	2,576	1,852	723
30.09.98	1,321	247	2,624	1,848	776
31.12.98	1,547	310	2,808	1,906	901
31.01.99	1,544	302	2,837	1,917	920
28.02.99	1,492	318	2,757	1,954	803
31.03.99	1,510	332	2,712	1,874	838
30.04.99	1,551	349	2,724	1,891	833
31.05.99	1,565	349	2,729	1,883	846
30.06.99	1,608	378	2,748	1,880	868
31.07.99	1,665	435	2,711	1,832	879
31.08.99	1,742	433	2,723	1,835	888
30.09.99	1,726	542	2,736	1,833	903
31.10.99	1,874	784	2,789	1,876	913
30.11.99	1,980	889	2,862	1,931	931
31.12.99	2,164	1,100	2,799	1,798	946
31.01.00	2,095	1,075	2,757	1,806	951
29.02.00	2,121	1,099	2,801	1,849	940
31.03.00	2,115	1,141	2,819	1,878	941
30.04.00	2,138	1,164	2,864	1,914	950
31.05.00	2,214	1,216	2,925	1,969	956
30.06.00	2,237	1,204	2,950	1,981	969

Source : CBBH

Table 14 : Commercial Banks Claims on the Economy (excl. Gov.)

Million KM

	Federation					
	31.12.98	30.6.99	30.9.99	31.12.99	31.3.00	30.6.00
<u>Short-term</u>	633.1	626.9	592.2	582.4	628.6	665.5
<i>public enterprises</i>	194.0	208.0	200.1	183.0	193.3	233.3
<i>private enterprises</i>	385.7	364.5	332.6	333.5	362.2	339.4
<i>others (incl. hhlds)</i>	53.4	54.4	59.5	65.9	73.1	92.8
<u>Long-term</u>	1272.7	1251.7	1241.0	1215.8	1250.7	1316.0
<i>public enterprises</i>	897.0	864.8	867.1	810.5	838.1	864.7
<i>private enterprises</i>	170.7	172.7	187.8	200.5	198.4	215.5
<i>others (incl. hhlds)</i>	205.0	214.1	186.2	204.8	214.2	235.8
TOTAL	1905.8	1878.6	1833.2	1798.2	1879.3	1981.5
	RS					
	31.12.98	30.6.99	30.9.99	31.12.99	31.3.00	30.6.00
<u>Short-term</u>	282.0	192.7	218.7	233.7	227.9	264.9
<i>public enterprises</i>	5.8	5.7	3.7	6.2	63.1	66.1
<i>private enterprises</i>	150.6	174.5	201.8	216.8	154.5	187.9
<i>others (incl. hhlds)</i>	125.6	12.5	13.2	10.7	10.3	10.9
<u>Long-term</u>	619.3	675.2	684.2	712.5	713.1	704.2
<i>public enterprises</i>	3.1	3.4	3.4	3.5	523.5	430.4
<i>private enterprises</i>	612.8	668.5	677.4	705.4	181.4	264.9
<i>others (incl. hhlds)</i>	3.4	3.3	3.4	3.6	8.2	8.9
TOTAL	901.3	867.9	902.9	946.2	941.0	969.1

Source : CBBH

Table 15 : Lending Interest Rates (Annual %)

Bank	Short-Term Credits	
	Minimum	Maximum
ABS banka Sarajevo	18	25.41
Gospodarska banka Sarajevo	16	20
Komercijalna banka Tuzla	8.17	40.27
Market banka Sarajevo	12	36
Postanska banka Sarajevo	19	26
Tuzlanska banka Tuzla	20	26.82
Universal banka Sarajevo	16	34.49
Union banka Sarajevo	18	19.7
UPI banka Sarajevo	15.2	16
Central Profit banka	10.5	15.94
Gospodarska banka Mostar	8.4	18
Hrvatska postanska banka Herceg-Bosna	9	24
Agroprom banka	12	18
Kristal banka	12	18

Source : CBBH

VIII. Privatization

A. FEDERATION

According to an update of October 2000, there are 1,484 non-strategic enterprises up for privatization in the **Federation** (of these 121 enterprises are not operating).²³ The number of enterprises going to the Small-Scale Privatization program is 322 (the SSP concerns trading, catering, services enterprises, road transport, non-core and unused assets of large enterprises, municipal business premises, and enterprises with fewer than 50 employees and less than DM 500,000 in totals assets). The number of enterprises going to the Large-Scale Privatization program (LSP) is 1,034 (enterprises are required to develop their own privatization plan and prepare an opening balance sheet; auctions, tenders, direct sales agreements and public offering of shares are the principal methods for selling the enterprises).²⁴

The Federation Privatization Agency published in September a list of 1,029 enterprises slated for privatization, including 967 enterprises for which the Canton Privatization Agencies have responsibility. The book value of these 1,029 enterprises is KM18.738 billion, of which KM1.407 billion is already in private hands. Forty-one percent of the State's share will be privatized through tender or a combination of tender and POS – this concerns 264 enterprises where typically 67% of the State's share is for sale through tender -- and almost thirty-seven percent will be privatized exclusively through Public Offering of Shares (POS).

A number of enterprises slated for tender privatization (88) will receive privatization preparation assistance from international advisers.

For SSP, the Law requires at least 35% cash payment and the balance to be made up in cash or (citizens) claims. Any combination of cash and claims can be used to purchase assets sold under mass privatization.

The Privatization Agency has created citizen claim accounts of different types :

- General claim (provided to all citizens based on number of working years)
- Frozen Foreign Currency claims
- Military Back Pay (to members of the armies of BH and police during the war)
- Pension Arrears
- Restitution (claims to compensate former owners who were deprived of property by forceful acts of the State; however, a Restitution Law has still to pass Parliament)

²³ There are also so-called 138 strategic enterprises (power, public media, mining, forestry, telecommunications, military industries, rail, transportation, water, gambling) for which the Federation Privatization Agency will elaborate privatization methods.

²⁴ In April 1999, the count stood as follows : SSP – 480 and LSP – 1089.

Citizens can invest privatization claims in Privatization Investment Funds; these institutions will be intermediaries in administering privatization transactions between citizens and enterprises slated for privatization.^{25 26}

Citizens occupying apartments with existing tenancy rights – they are an estimated 70,000 in this category -- have the right and opportunity to purchase his/her apartment. Buyers may be eligible for discounts based on accumulated working experience, military and police service, wartime working duty, war victims and for cash payment. The owners of apartments – enterprises, municipalities, etc – will themselves execute sales.

As of October 10, 2000 the ten Cantonal Privatization Agencies and Federal Privatization Agency had announced 1,927 auctions/tenders to sell off 3,797 objects. 1,255 auctions/tenders were effectively held, selling 1,540 objects (leaving 1,426 objects unsold). The objects were sold for KM 425.3 million.

B. REPUBLIKA SRPSKA

In the **Republika Srpska**, the privatization process is somewhat different. Citizens are eligible for a voucher (a general claim equal for all citizens, specific claims related for veterans and families of killed soldiers or missing in action). Registration of citizens started on January 3, 2000. The Ministry of Interior database has 1.4 million records and another 780,000 records of refugees and Displaced Persons exist. The Directorate for Privatization expected at least 94% of the estimated population to register. Holders of lost foreign currency savings are provided an opportunity to convert all or part of their savings into coupons, which are treated as cash equivalents at cash sales. In a later stage, holders will be given the opportunity to convert savings into certificates for apartments and purchase of state-owned business premises. Restitution is not provided based on the current privatization legislation. A separate Restitution Law had been passed but was subsequently annulled by the High Representative for being ill-conceived.

Small-scale enterprises (firms with less than KM 300,000 in capital) will be privatized through a combination of cash and coupon sales. Assets of large-scale enterprises will be sold as follows: at least 55 percent for vouchers, 15 percent for restitution and pension funds, and the remaining

²⁵ A PIF is a fund that will exchange shares in the fund for citizens' privatization certificates. The fund will use privatization claims in the POS to purchase shares in large enterprises being privatized. The shares purchased in the privatization process will constitute the fund's portfolio. Investors will then be able to buy and sell shares in a privatization fund like shares in a standard Investment Fund. At the end of five years, PIFs should transform into standard Investment Funds. Management companies charge the fund fees to cover the cost of managing the fund, plus a commission fee for managing the fund. Fees paid by the fund to the management company are limited by law to protect shareholder interest.

²⁶ Some private PIFs began collecting subscriptions from BiH citizens in May 2000 under the assumption that a list of companies and equities to be offered under the POS would soon be published. However, the FPA postponed the announced publication. The International Advisory Group on Privatization informed the High Representative (HR) that without being aware of their investment opportunities, citizens would be unlikely to subscribe to the PIFs. This meant that the PIFs could not capitalize the legally required minimum value of KM200 million (face value of claims) within the 3-month subscription period. The HR thus removed the time limit. Two PIFs have now reached the minimum capital requirements. (Source : Economic Task Force Newsletter, Vol.3, Issue 6, October 2000)

30 percent to strategic investors for cash or investment tenders or through remaining vouchers, cash, or coupons. Strategic enterprises will be privatized (partly by Public Offering) as individual projects approved by the Government.^{27 28}

Enterprise preparation involves ownership transformation, Opening Balance Sheet preparation, Privatization Plan preparation. 1,121 companies have their data entered in the Journal. Partial (pre-war Markovic) privatization is recognized in 372 companies. Voucher privatization has been announced for 870 enterprises.

As of October, 2000 sixty-two companies with State capital below KM300,000 have been sold for a total sale price of KM7.9 million (69% of which was settled with frozen foreign currency savings coupons). Eight companies with State capital above KM300,000 have been sold for a total sale price of KM6.2 million, all of which paid with frozen foreign currency savings coupons.

²⁷ The number of strategic enterprises is currently 61.

²⁸ Based on the book value of assets (June 1998), the assets to be sold in the RS privatization program are worth KM8 billion.